

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Revision of 2000/01 Investment Branch Objectives

ITEM NUMBER: 4

ATTACHMENT(S): 2

ACTION: _____

DATE OF MEETING: January 9, 2001

INFORMATION: X

PRESENTER(S): Christopher J. Ailman

The investment branch objectives are the operational work plan derived from the annual Investment Management Plan adopted in June each year. When the Committee adopted this year's objectives on July 12, 2000, it was noted that some adjustments would be made once a new Chief Investment Officer was hired. As the new CIO, I have reviewed the plan and recommend that the work plan be streamlined by postponing some items into next year. As discussed at the November Committee meeting, the Investment Branch has been very active in the past two years adding new programs and managers to almost every asset class. The original objectives (labeled Attachment 1) were very aggressive and contemplated adding several additional new projects. Streamlining this year's objectives will enable staff to vigorously tighten the bolts on approved existing programs and processes, as well as to envision the tactical applications needed to solidify next year's projects. This will also allow for a smooth transition providing the opportunity to focus more on our core areas of activity. The revised objectives (labeled Attachment 2) are submitted for your review, adjustment, and approval.

To assist in your review, we have included a copy of the prior objectives with all the deletions and any additions clearly noted. At the mid-point of the Fiscal Year, I am pleased to report many items already have been completed. Of the remaining work, the key focus will continue to be to seek added operational efficiency and develop enhancements to Committee and Board reports.

**2000 –2001 INVESTMENT OBJECTIVES TIMELINE
BY DIVISION
INVESTMENT BRANCH
OBJECTIVES FOR 2000/2001 FISCAL YEAR**

DIVISION	DESCRIPTION	MONTH	STATUS
ALTERNATIVE INVESTMENTS	Explore, evaluate, and report on the correlation, if any, of paying higher management fees and carried interest to General Partners and receiving superior investment performance.	DEC 2000	COMPLETED
	Review and evaluate the due diligence process for limited partnerships to optimize the dual role of staff and the consultant.	JAN 2001	POSTPONED
	Review and recommend on the appropriateness of creating a limit on the annual allocation of commitments for a single vintage year relative to total alternative investment portfolio.	MAY 2001	POSTPONED
	Explore the feasibility and potential benefits of private equity investments in under served urban and rural communities.	JAN 2001	
	Develop an implementation plan for a New and Next Generation Manager Program.	FEB 2001	
	Explore, evaluate, and report on the feasibility and potential benefit of including direct investments in the Alternative Investment portfolio.	JUN 2001	POSTPONED
	<i>Explore direct and other portfolio opportunities in order to optimize sectors.</i>	<i>JUN 2001</i>	
CORPORATE GOVERNANCE	Will be determined at a future Subcommittee on Corporate Governance meeting		
CREDIT ENHANCEMENT	Complete a study of the feasibility of expanding the credit enhancement program to the 48 continental states, reporting the findings to the Investment Committee.	JUN 2001	POSTPONED
	Report on the Credit Enhancement Program including the types and volume of transactions in municipal finance, industrial development, and housing finance projects.	MAR 2001	
	Expand the underwriting of credit enhancement transactions that support California K – 12 Schools and California Community Colleges.	NOV 2000	COMPLETED
	Implement the credit enhancement strategies supporting California multifamily housing projects by utilizing a broader range of financial institutions.	ON-GOING	DELETE PROGRAM DESCRIPTION
CURRENCY HEDGING	Explore, evaluate and present a report on alternatives for the Investment Committee to consider in developing the System's view regarding currency management. Issues such as currency management objectives, risk tolerance and implementation methodologies should be addressed.	JAN 2001	POSTPONED TO THE FALL OF 2001

DIVISION	DESCRIPTION	MONTH	STATUS
CURRENCY HEDGING Cont.	Explore additional currency risk management strategies, such as the use of currency overlay managers and currency options, to increase the efficiency of the Currency Hedging Program.	APR 2001	POSTPONED TO THE FALL OF 2001
EXTERNAL EQUITY	Implement the new Benchmarks as adopted by the Investment Committee.	OCT 2000	COMPLETED
	Complete the selection and contracting processes for the indexed domestic, international and emerging markets managers.	NOV 2000	COMPLETED
	Prepare a report on the implementation results for the actively managed segment of the domestic and international equity portfolios.	MAY 2001	
	Explore, evaluate and present a report on the appropriate method of selecting and/or approving allowable emerging market countries to be included in the active or passive emerging market portfolios.	FEB 2001	POSTPONED
INTERNAL EQUITY	Present a report to the Investment Committee that reviews the development of the Cash Equitization program.	MAY 2001	
	Present a report that reviews and discusses the key issues associated in bringing a portion of the MSCI EAFE indexed portfolio under internal management.	JUN 2001	POSTPONED
	The use of options can create a wide variety of risk and return profiles for the CalSTRS' investment portfolio. Present a report reviewing the use of equity options.	JUN 2001	POSTPONED
FIXED INCOME LONG TERM	Continue to manage the domestic core Fixed Income Portfolios in such a manner as to consistently exceed the total return of the performance benchmark, while monitoring the deviation from the major risk characteristics of the performance benchmark.	ON-GOING	DELETE PROGRAM DESCRIPTION
	Prepare, release, and evaluate a Request for Proposal (RFP) for external active High Yield Bond managers	NOV 2000 JAN 2001	
	<i>Review and evaluate investment opportunities in underserved urban and rural areas.</i>	MAR 2001	
FIXED INCOME SHORT TERM	Continue to manage the Short Term Fixed Income Portfolios in such a manner as to meet the investment objectives: a) to seek the preservation of capital (safety), b) to provide liquidity and, c) to maximize current income while evaluating the inclusion of new investment instruments, as appropriate.	ON-GOING	DELETE PROGRAM DESCRIPTION

DIVISION	DESCRIPTION	MONTH	STATUS
HOME LOAN	Report on the continued implementation of the enhancements to the Home Loan Program, as described within this Business Plan, highlighting the progress achieved in developing exit strategies.	MAY 2001 JUN 2001	
	Explore additional program enhancements, concentrating on affordability, recruitment and retention issues.	MAY 2001	DELETE PROGRAM DESCRIPTION
INVESTMENT OPERATIONS	Participate in the planning and implementation process as approved for new or modified investment programs to minimize the disruptions to existing functions, products and programs.	ON- GOING	DELETE PROGRAM DESCRIPTION
	Utilize technology to enhance or improve the investment processes.	ON- GOING	DELETE PROGRAM DESCRIPTION
	Evaluate enhancements to the real estate cash management program concentrating on the changes caused by the increase in geographic diversification and number of properties serviced.	JAN 2001	POSTPONED
	Review and recommend changes to the current repatriation of foreign currency requirements.	NOV 2000 FEB 2001	
REAL ESTATE	Present an analysis on joint venture structure and applicability for implementation into low, moderate, and high-risk real estate.	SEP 2000	COMPLETED
	Complete a review of the appropriate property type diversification targets making recommendations to policy including the appropriate method to address the retail property type.	JAN 2001	DELETE PART OF SEMI- ANNUAL REVIEW
	Review and present a report on the advantages and disadvantages of holding legal title to CalSTRS properties.	NOV 2000	COMPLETED
	Present an implementation plan for urban real estate investments.	NOV 2000 FEB 2001	
	Explore public real estate securities (REIT's) to determine the viability of including a public REIT component in the real estate portfolio.	FEB 2001	POSTPONED
	Research and present high risk investment alternatives to determine viable candidates for further study and implementation.	NOV 2000	DELETE PROGRAM DESCRIPTION

DIVISION	DESCRIPTION	MONTH	STATUS
SECURITIES LENDING	Report on the progress achieved in implementing the Securities Lending Program Business Plan, highlighting the structural changes in the program within the three categories: <ul style="list-style-type: none"> • Agent Lending/Agent Cash Collateral Management • Agent Lending/CalSTRS Cash Collateral Management • CalSTRS (Principal) Lending/CalSTRS Cash Collateral Management. 	APR 2001	
SOFT DOLLAR	Prepare an annual report to the Investment Committee including reconciliation or matching totals and verifying balances between CalSTRS, the manager and the broker.	MAY 2001	
	Implement a process to “recapture” soft dollar balances as appropriate to reduce the risk associated with concentration of activity with a small number of brokers.	NOV 2000 MAR 2001	
GENERAL	Complete an asset allocation review as required by the Investment Management Plan.	MAY 2001	
	Revise the Investment Management Plan to reflect the modifications (if any) in the strategic asset allocation, investment objectives, and investment structure.	JUN 2001	
	Report on the California real estate purchases that satisfy the legislative target to invest 25% of new cash flow.	SEP 2000	COMPLETED

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	Develop an implementation plan for a New and Next Generation Manager Program.	FEB 2001	
	<i>Explore direct and other portfolio opportunities in order to optimize sectors.</i>	<i>JUN 2001</i>	
CORPORATE GOVERNANCE	Will be determined at a future Subcommittee on Corporate Governance meeting		
CREDIT ENHANCEMENT	Report on the Credit Enhancement Program including the types and volume of transactions in municipal finance, industrial development, and housing finance projects.	MAR 2001	
	Expand the underwriting of credit enhancement transactions that support California K – 12 Schools and California Community Colleges.	NOV 2000	COMPLETED
EXTERNAL EQUITY	Implement the new Benchmarks as adopted by the Investment Committee.	OCT 2000	COMPLETED
	Complete the selection and contracting processes for the indexed domestic, international and emerging markets managers.	NOV 2000	COMPLETED
	Prepare a report on the implementation results for the actively managed segment of the domestic and international equity portfolios.	MAY 2001	
INTERNAL EQUITY	Present a report to the Investment Committee that reviews the development of the Cash Equitization program.	MAY 2001	
FIXED INCOME LONG TERM	Prepare, release, and evaluate a Request for Proposal (RFP) for external active High Yield Bond managers	NOV 2000 JAN 2001	
	<i>Review and evaluate investment opportunities in underserved urban and rural areas.</i>	<i>MAR 2001</i>	
HOME LOAN	Report on the continued implementation of the enhancements to the Home Loan Program, as described within this Business Plan, highlighting the progress achieved in developing exit strategies.	MAY 2001 JUN 2001	

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REAL ESTATE	Present an analysis on joint venture structure and applicability for implementation into low, moderate, and high-risk real estate.	SEP 2000	COMPLETED
	Review and present a report on the advantages and disadvantages of holding legal title to CalSTRS properties.	NOV 2000	COMPLETED
	Present an implementation plan for urban real estate investments.	NOV 2000 FEB 2001	
SECURITIES LENDING	Report on the progress achieved in implementing the Securities Lending Program Business Plan, highlighting the structural changes in the program within the three categories: <ul style="list-style-type: none"> • Agent Lending/Agent Cash Collateral Management • Agent Lending/CalSTRS Cash Collateral Management • CalSTRS (Principal) Lending/CalSTRS Cash Collateral Management. 	APR 2001	
SOFT DOLLAR	Prepare an annual report to the Investment Committee including reconciliation or matching totals and verifying balances between CalSTRS, the manager and the broker.	MAY 2001	
	Implement a process to “recapture” soft dollar balances as appropriate to reduce the risk associated with concentration of activity with a small number of brokers.	NOV 2000 MAR 2001	
GENERAL	Complete an asset allocation review as required by the Investment Management Plan.	MAY 2001	
	Revise the Investment Management Plan to reflect the modifications (if any) in the strategic asset allocation, investment objectives, and investment structure.	JUN 2001	
	Report on the California real estate purchases that satisfy the legislative target to invest 25% of new cash flow.	SEP 2000	COMPLETED